



Methodology - Quantitative Phase

To determine the percentage of businesses and lines that would switch given a specific competitive scenario, the following conversion factors were assigned to the results of the conjoint analysis in an attempt to more closely estimate the actual "demand" under any specific scenario.

<u>Response</u>	<u>Category</u>	<u>Likelihood to Switch</u>
Very Willing	4	75%
Somewhat Willing	3	50%
Not Very Willing	2	25%
Not At All Willing	1	0%

Conversion factors such as these are commonly used to account for some tendencies frequently found in market research studies that lead to an inflated estimation of demand. Some of these tendencies include overstatement by respondents (who are more likely to agree to switch during the survey process than in reality), inertia in actually switching services and lower levels of awareness of competitive offerings (since all respondents were educated about the potential competition).

Research Limitations

While external factors such as awareness, inertia, advertising and related marketing efforts are likely to influence the decision to switch, those variables were not tested in this study. As with any market research study, additional forecasting and analysis is necessary to account for the impact of these variables.



Conclusions

Relative Value of Number Portability

- When making the decision regarding switching local and toll services to another company, in general businesses will consider pricing discounts more heavily than the ability to keep their telephone number. In fact, the barrier of having to switch telephone numbers can be overcome by reasonable discounting strategies. To capture businesses not likely to switch because of a number change, only a 12% discount is required. Based on current offers being made in the intraLATA toll arena, as well as normal "cost of entry" expectations, this level of discount does not seem to be an insurmountable barrier to potential alternate providers.
- From another perspective, in any given situation (i.e., combination of discounting, brand and service bundling), the addition of number portability only captures approximately 10% more of the business market. As an example, if a long distance company offers local services for 15% less than the current price, 25% of businesses will switch main lines without number portability compared to 36% who will switch with number portability. While any customer, when asked whether their telephone number is important to them, will seem resistant to switching numbers, the actual impact of switching a number is far less significant when all elements are evaluated simultaneously.
- As expected, having to change the number on "main" lines, or changing DID numbers, is more of an issue than changing "other" lines. A greater proportion of other lines would be switched if number portability is not enacted. However, when a number change is not required, the proportion of DID numbers and main lines switched approximates the proportion of other lines switched.

Alternatives to Number Portability

- Since number portability is not as influential as costs for local and toll services, it is highly possible that an environment can be created that requires a telephone number change if a business wishes to switch providers. In this case, any of the alternatives tested (e.g., announcement with transfer for two years) will result in approximately the same percent of businesses switching. Since the difference between offering the existing referral product (announcement for 1 year) and either extending the length of the announcement or adding automatic transfer capabilities does not significantly influence the likelihood to switch, changing the number referral process does not seem to be an efficient or cost-effective method for resolving the issue of an "equal playing field." Given this finding, the true issue concerning businesses is whether they keep their telephone number or not; the specific technological solutions are relatively unimportant.



Conclusions

- Another viable alternative is for businesses to switch only "other" lines, not the "main" lines that are used for their primary contact number. In scenarios where a number change is required, the proportion of other lines switched was generally higher than the proportion of main lines, suggesting that businesses are willing to keep main lines with Pacific Bell while switching their other lines to an alternate local provider (even though they would not receive a discount for their main lines). However, when number portability is available, this differential disappears and the same proportion of main and other lines will be switched.
- Although not tested as an alternative, a third possibility that already exists is remote call forwarding for number retention, paid for by the customer. Approximately one-tenth of all businesses were currently using a number retention service, the majority of whom always plan to keep the service.

Impact of Discounts

- As mentioned above, discounts offered on local and toll services have a greater impact on businesses' decisions to switch these services than the requirement to change their telephone number. In other words, the barrier of changing numbers can be "bought" by an appropriate discount.
- By increasing the discounts from 0% less to 25% less than they are currently paying for service from the local telephone company, the percent of businesses willing to switch main lines increases by about 25 percentage points. For example, given number portability and local, toll and long distance services offered by a business' incumbent long distance company, 21% of business would switch with no discount while 45% would switch with a 25% discount. This incremental increase of 24 points is substantially greater than the impact seen when number portability is added (which captures only 10% more of the market). Therefore, alternative providers with pricing flexibility will be able to compensate for no number portability by their pricing strategies.

Impact of Brand/Service Bundling

- The brand and the types of services offered (local, toll, long distance) do not have as much influence as the price of the service or the impact on the telephone number, suggesting that most potential alternative providers will have an equal baseline from which to start. Across the different brand/service bundling combinations, the overall variation in percent of businesses willing to switch main lines is less than 5%.



Conclusions

- Although not as influential as the discounts or impact on the telephone number, brand will still have an impact on a business' final selection of an alternative provider. When asked which company they would switch to for local services, businesses preferences mirrored the existing market share disposition in the existing long distance market. This suggests that some primary factors in selecting a long distance brand are also evaluated when selecting a local brand, such as awareness, reliability, customer service. In the focus groups, it was clear that any potential local access provider must provide a certain "threshold" level of these elements to even be considered. However, since these items are basic measures of brand strength, they exist whether or not a business has to change its telephone number, and therefore should not be factors in the decision to adopt number portability.
- There is an interaction between brand and service bundling. If an incumbent long distance company offers local, toll and long distance service, it will garner slightly more local/toll business than another telecommunications company making the same offer. On the other hand, if another telecommunications company offers only local and toll, its potential is the same as an incumbent long distance company. This finding reflects (1) a certain level of resistance for businesses to combine all of their services with an unfamiliar provider (i.e., "put all their eggs in one basket") or (2) a certain level of satisfaction with their existing long distance service and, therefore, a reluctance to switch long distance providers.
- Satisfaction with the current long distance company is important in whether that company will be considered for local and toll services. While the majority of AT&T long distance customers would also select AT&T for local and toll, almost half of MCI customers and other long distance company customers (not including Sprint) would also choose AT&T for local and toll services, implying a certain level of dissatisfaction with this carrier.

Differences between Types of Businesses

- Medium-sized businesses (with 25 - 99 lines) generally are most likely to switch for any discount (even no discount or only 5% less). However, they are also more impacted by the availability of number portability than other business sizes, as 17% more will switch if they don't have to change their telephone number.
- While less likely to switch for no discount at all, large businesses (100 lines or more) are most impacted by higher discounts (e.g., 59% will switch main lines if offered 25% less from their long distance company). Additionally, these businesses place the least value on their existing telephone number (only 8% more will switch with number portability).



Conclusions

- Other than those differences, the “value” of the telephone number (as determined by the difference between businesses who switch with or without a number change) does not differ much between different types of businesses. The availability of number portability does have a greater impact on businesses that have Centrex, as 16% more Centrex users will switch if they do not have to change their number versus only 11% more non-Centrex users. Similarly, businesses who primarily use an “other” long distance company (not AT&T, MCI or Sprint) place the least value on their number, as they are probably more price sensitive and more likely to switch services in general.

Other Influences on Willingness to Switch

- Compared to the primary influencers (discounts, impact on number and brand), other “incentives” or factors such as reimbursement for re-printing or company relocation will have only a minor effect on a businesses willingness to switch local telephone providers. However, as found in the focus groups, these types of incentives are considered after the impact on the telephone number and the overall reliability and service of the company making the offer are evaluated.
- Incentives such as reimbursement for re-printing or customized number change announcements are mostly attractive to small and medium-sized businesses. The effect of these incentives is still small – four out of ten businesses will be influenced by an offer of \$1,000 towards stationary costs and only one-fifth will be much more likely to switch if a customized announcement is offered.



Detailed Findings - Qualitative Phase

Understanding of Potential Local Access Competition

When the focus group participants were first presented with the concept of local access and toll competition, there was some initial confusion. Most of the concerns raised regarded the potential impacts a service provider change would have on other aspects of their telecommunications arrangement. For example, there were questions about how Centrex would be administered if a customer switched from Pacific Bell. More rudimentary concerns were raised regarding repairs and maintenance on lines and whether or not a new provider would be capable of meeting their business' telecommunications system needs.

In addition, there was skepticism among some participants about whether or not "promised" savings would be realized over time. Because of the varying services a business may have with Pacific Bell, business customers demanded a more concise definition of which specific services would be discounted if they switched their local telephone company before they were willing to make a decision. Additionally, most participants felt it was confusing to have different discounting for local access versus toll services, and had difficulty separating their own local and toll charges. As a result, it became necessary to describe a discount as a percentage less than whatever a business pays their local telephone company now, rather than discounting specific aspects of local service. This important finding became the basis for the discount attributes in the quantitative study.

It also was apparent that a certain amount of education and clarification was necessary for the participants to understand how local access competition would affect their business. When a new competitor enters the market, it is likely that they would educate potential customers about the local telecommunications environment and explain the impact of switching providers so as to simplify their sale. As a result, the quantitative survey was designed to simulate a "competitive pitch" as closely as possible by clearly defining the present local telecommunications environment, describe CPUC changes, and minimize confusion by delineating those telecommunications services that would be unaffected by switching providers.



Detailed Findings - Qualitative Phase

Willingness to Change Number

Several issues regarding a business' willingness to switch its main phone number were raised by the participants or uncovered during the groups. Most importantly, a business' willingness to switch seemed most strongly related to the discount offered. Some participants expressed a minimum discount for even considering switching although others would switch for no discount (either to "get away" from Pacific Bell or consolidate all services with their long distance company). For example, large businesses tended to want a higher discount (more than 10%) before they would evaluate an offer to switch, but seemed more likely to switch for a higher discount than smaller businesses. In general, the higher the discount offered, the more participants would be willing to switch their local service provider.

Secondly, how the potential competitive scenario was presented to participants had a significant impact on their willingness to switch. If a specific phone number was positioned as critically important to the success of their business, participants became more resistant to switching providers and a phone number's perceived value was inflated. On the other hand, if the importance of the number was not initially discussed and a "competitive pitch" was presented to participants, the impact of switching a number was significantly reduced. This finding suggests that an alternative local access provider could overcome a substantial portion of the resistance to change a number purely by positioning the change correctly. When local telephone competition occurs, new market entrants are certain to develop marketing strategies that would minimize the perceived barriers to switching. Consequently, the quantitative study was designed to replicate the likely "pitch" as much as possible.

Furthermore, when participants realized they could keep their main line with their local telephone company and switch all other lines, the likelihood of businesses to switch providers increased. While a main line may have the business' published phone number, this line is primarily used for inbound traffic so a discount on that line is not as critical. Therefore, the increased willingness of businesses to switch their outbound traffic lines -or their "other" lines- to a new provider was an important finding. Any viable competitor who suggests this approach (i.e., to switch only "other" lines) seems likely to win at least a portion, if not all, of the "other" lines. As a result, the quantitative study was designed to capture a business' willingness to switch each type of line and the percent of each type switched.



Detailed Findings - Qualitative Phase

Finally, some business participants even volunteered methods for circumventing a main number change. Businesses that had moved or had experienced a recent area code change mentioned the use of Remote Call Forwarding (RCF) which, in effect, allows their published main number to remain unchanged to callers. Meanwhile other businesses had migrated to an inbound 800 number as their main business number so as to insulate their customers from future number or area code changes.

Influences on Willingness to Change Local Access Provider

When asked to suggest an incentive that would motivate them to switch local access providers, respondents immediately mentioned a discount off of their service. However, to ensure that all possible options were explored and then to narrow the field of incentives to be evaluated in the quantitative phase, an inventory of potential incentives and/or number change mitigators were evaluated in the qualitative phase. The list of incentives tested are shown below. While a pool of respondents emerged who would accept any offer to switch from Pacific Bell, another group emerged that could not be enticed into switching with any incentive.

Influence on Willingness to Change Access Provider

Incentive/Mitigator	High	Medium	Low
• Discount on local/toll service	✓		
• Service Provider:			
Long Distance Company	✓		
Other Telecommunications Company	✓		
Cable TV Provider			✓
• Announcement of Number Change	✓		
• Announcement and Automatic Transfer		✓	
• Duration of Announcement/Transfer		✓	
• Ability to customize announcement		✓	
• Ability to keep same prefix			✓
• Reimbursement for new stationary costs (\$500-\$1,000)		✓	
• Free 800 number for 6 months			✓
• Discount on Yellow Pages advertising		✓	
• Ability to change only a portion of lines	✓		



Detailed Findings - Qualitative Phase

In between these two poles, the reactions were varied and were primarily driven by a participant's business size or the quantity and type of lines under consideration (e.g., main lines or "other" lines).

Among the focus group participants, several of the incentives had a relatively high influence on a business' willingness to switch. These included the discount or savings on local/toll service and the type of service provider. The service provider was particularly important to some participants, and there was generally a strong resistance to switch to an "unknown" brand. In fact, some customers would not consider switching unless the telecommunications company could be assured to offer the same level of customer service, service quality, and brand familiarity that they currently have. In addition, some participants were unwilling to switch all their telecommunications service (e.g., local, toll and long distance) to any carrier and wanted the opportunity to "trial" a portion of their lines before committing completely.

A cable television company as telecommunications provider held universal disfavor among almost all business participants and was identified as an inappropriate provider of local and toll services for these customers.

Another "incentive" of high importance was the ability for a business to switch only a portion of their lines to an alternative provider. As described previously, respondents were more likely to switch their "other" lines versus their main lines, especially when offered a discount.

Of moderate importance to business customers were the announcement of number change, an announcement with transfer, and the duration of the announcement or transfer. At a minimum, Pacific Bell was expected to offer an announcement, if the number changed, as they do now. While the opportunity to customize an announcement was attractive to some small businesses, large and medium-sized businesses did not perceive any value in it. The announcement with transfer held some appeal, yet several participants were skeptical that customers would record the new number if they were automatically transferred. As for the duration of the announcement, some participants felt that one year was acceptable as they were likely to have notified their customers by then. Yet other participants stated they would want an announcement or an announcement with transfer for a longer duration.



Detailed Findings - Qualitative Phase

The offer to reimburse stationery costs of \$500-\$1,000 held some interest among smaller businesses. However, among large businesses, the offer had limited influence because of the small proportion of costs this amount would cover.

While discounts on Yellow Pages advertisements was appealing to those participants who had Yellow Page advertisements, there was significant doubt that real cost savings would be realized given the size of their Yellow Pages expenditures. Most of these participants would need to know what specific type of discount would be offered before they could judge its influence on their decision.

Maintaining a number prefix would provide little incentive for a business, as they would still incur the costs associated with a telephone number change. Participants with DID numbers said that they would rather have the last 4 digits of the number remain the same, rather than the prefix, so at least internal communications would be relatively unaffected by the changes.

Also of limited influence was the offer of a free 800 number for 6 months. This incentive was somewhat appealing until businesses realized the advertising costs involved with broadcasting a transitional and temporary number, which would be the same as advertising a new number.

While other incentives and marketing tactics could be used by actual entrants into the local telephone market, it would have been impossible to test all potential incentives and/or mitigators to a phone number change. Regardless, the evaluation of marketing strategies to mitigate a phone number change was not an objective of this research study. From the discussion surrounding these incentives, the major issues were determined and included in the quantitative phase, specifically, the discount on local/toll service, the service provider and type of services offered, the type of number change announcement and the ability to switch only a portion of lines.



Detailed Findings - Quantitative Phase

The following section covers the findings from the second, quantitative phase of the research, and is categorized as follows:

- Current Telecommunications Environment
- Impact of Elements on Willingness to Switch Providers
 - Technological Solutions
 - “Brand” and Service Bundling
 - Discounts
- Trade-off Between Service Discount and Number Portability
- Value of Number Portability (by Business Characteristics)
- Impact of Other Elements on Likelihood to Switch Providers
- Preferred Provider for Local Access

In certain sections, the results have been broken out by business size - either number of employees or number of lines. The following two pages provide a brief summary of the telecommunications environment among the survey respondents.



Current Telecommunications Environment

	<u>Total</u>	<u>Small Businesses</u>	<u>Medium Businesses</u>	<u>Large Businesses</u>
<u>Average Number of Lines and Trunks</u>	14.3	5.5	36.2	231.7
Average Number of Main Lines	3.0	1.8	7.1	22.5
Average Number of Other Lines	11.2	3.7	29.3	208.4
Average Total Monthly Bill	\$966	\$362	\$2,780	\$13,098
Average Long Distance Bill	\$563	\$265	\$943	\$12,546
<u>Incidence of Specific Telecom Products:</u>				
Single line phone/1 MB's	65%	69%	48%	54%
Centrex	14%	12%	23%	38%
PBX	12%	10%	17%	55%
Key System/KSU	12%	10%	21%	28%
Voice mail	16%	14%	21%	64%
T-1's	10%	10%	11%	51%
Least Cost Routing	10%	8%	19%	51%
DID Numbers	1%	--	2%	34%
800 Numbers	24%	21%	34%	62%
Number of locations	2.6	1.6	6.3	17.7
<u>Telecom Decision-making (if 2+ locations)</u>				
Centralized	53%	42%	70%	54%
Decentralized	38%	47%	21%	40%
	(n=172)	(n=19)*	(n=56)	(n=97)
Use telecommunications consultant	11%	10%	14%	29%
Yellow Pages advertiser	68%	68%	69%	63%
<u>Stationery re-print cycle</u>				
Every 6 months	8%	8%	9%	17%
Every 6 months - 1 year	17%	15%	27%	24%
Every 1-2 years	25%	24%	30%	24%
Every 2-3 years	15%	16%	10%	11%
Every 3 years or more	23%	24%	21%	21%
Likely to move in next 2 years	21%	21%	18%	14%
Percent of Business Population	100%	82%	16%	2%
(unweighted n)	(n=519)	(n=179)	(n=170)	(n=170)

*Small sample size; use caution when projecting results



Current Telecommunications Environment

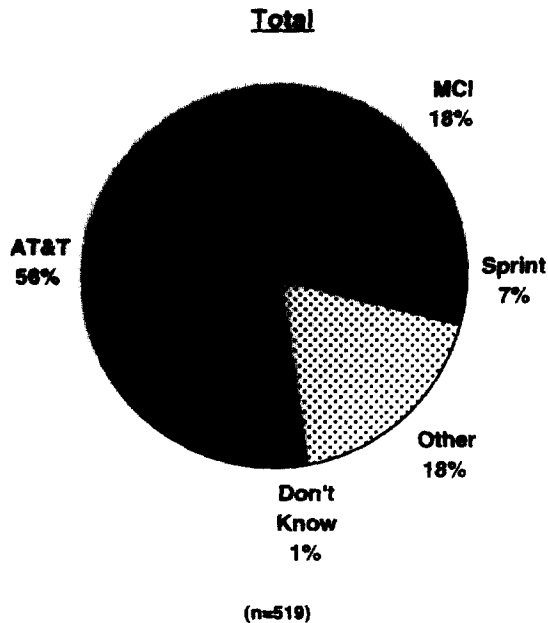
	<u>Total</u>	<u>1-4 Lines</u>	<u>5-24 Lines</u>	<u>25-99 Lines</u>	<u>100+ Lines</u>
<u>Average Number of Lines and Trunks</u>	<u>14.3</u>	<u>2.3</u>	<u>8.3</u>	<u>42.1</u>	<u>588.9</u>
Average Number of Main Lines	3.0	1.5	2.2	6.0	79.8
Average Number of Other Lines	11.2	0.8	6.2	36.1	507.0
Average Total Monthly Bill	\$966	\$149	\$757	\$5,495	\$30,305
Average Long Distance Bill	\$563	\$67	\$366	\$5,247	\$13,738
<u>Incidence of Specific Telecom Products:</u>					
Single line phone/1 MB's	65%	70%	50%	72%	67%
Centrex	14%	8%	19%	51%	84%
PBX	12%	4%	17%	72%	86%
Key System/KSU	12%	9%	15%	23%	50%
Voice mail	16%	9%	25%	47%	96%
T-1's	10%	7%	7%	51%	85%
Least Cost Routing	10%	4%	13%	71%	93%
DID Numbers	1%	--	--	4%	34%
800 Numbers	24%	18%	30%	65%	94%
Number of locations	2.6	1.3	2.1	3.5	56.2
<u>Telecom Decision-making (if 2+ locations)</u>					
Centralized	53%	40%	72%	30%	59%
Decentralized	38%	41%	24%	64%	41%
	(n=172)	(n=26)*	(n=61)	(n=35)*	(n=44)*
Use telecommunications consultant	11%	7%	17%	37%	21%
Yellow Pages advertiser	68%	69%	64%	69%	50%
<u>Stationary re-print cycle:</u>					
Every 6 months	8%	5%	17%	6%	8%
Every 6 months - 1 year	17%	12%	28%	28%	7%
Every 1 - 2 years	25%	26%	24%	9%	39%
Every 2 - 3 years	15%	18%	7%	22%	8%
Every 3 years or more	23%	23%	24%	8%	36%
Likely to move in next 2 years	21%	18%	25%	12%	15%
Percent of Business Population	100%	68%	24%	4%	2%
(unweighted n)	(n=519)	(n=206)	(n=182)	(n=57)	(n=58)

* Small sample size; use caution when projecting results



Current Telecommunications Environment

Current Long Distance Vendor



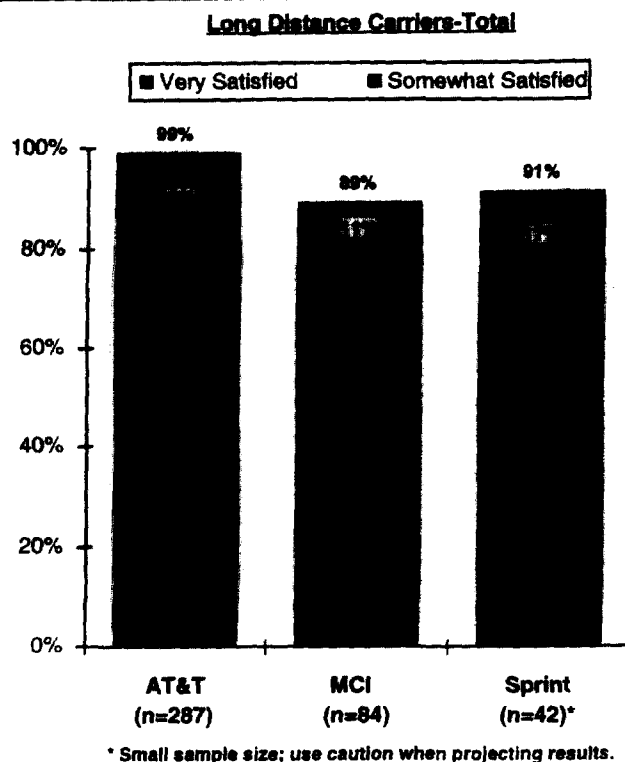
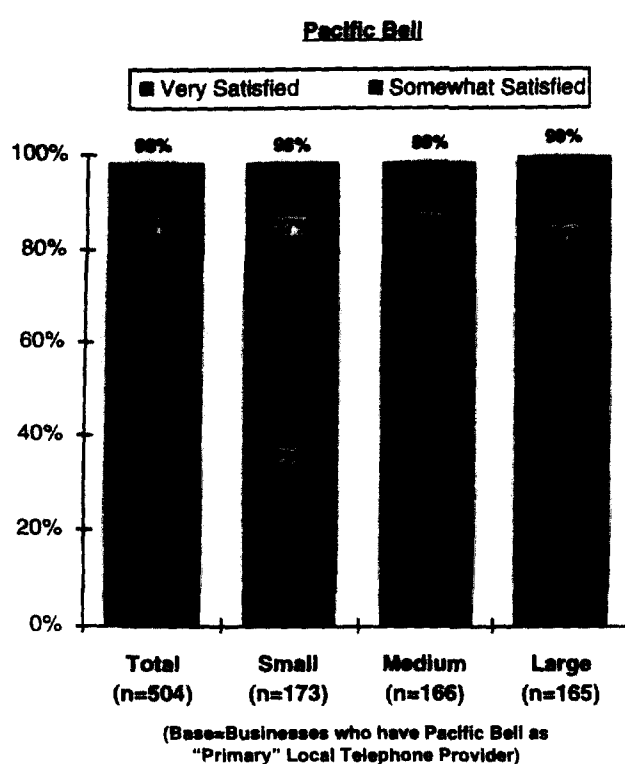
	By Number of Employees		
	Small	Medium	Large
AT&T	55%	58%	50%
MCI	19%	14%	18%
Sprint	8%	4%	16%
Other	17%	23%	16%
Don't Know	1%	1%	0%
	(n=179)	(n=170)	(n=170)

While AT&T continues to retain the majority of the long distance market (56%), a substantial portion of businesses (18%) are using smaller (non-Big 3) companies as their primary long distance company. Additionally, among large businesses (100+ employees), Sprint's share is substantially higher (16%).



Current Telecommunications Environment

Satisfaction with Current Vendors



In considering whether a business will be likely to switch to an alternate local access provider, the satisfaction with current vendors should be considered. While almost three quarters (71%) are "very satisfied" with Pacific Bell, satisfaction with AT&T (81%) is significantly higher.



Current Telecommunications Environment

	Total	Small Businesses	Medium Businesses	Large Businesses
Changed Main Number	27%	27%	25%	32%
Use RCF/Number Retention	14%	10%	13%	20%
	(n=519)	(n=179)	(n=170)	(n=170)
<u>Among those who use RCF...</u>				
Will always keep service	69%	75%	50%	47%
Will stop service after 1 year	16%	13%	27%	21%
Will stop service after 2 years or more	11%	6%	23%	30%
	(n=72)	(n=16)*	(n=22)*	(n=34)*

* Small sample size; use caution when projecting results.

About a quarter (27%) of all businesses had changed their main number at some point in the past and one-tenth (10%) of all businesses were currently using RCF or a number retention service, suggesting that they would have less resistance, if any, to switching local service providers. This finding was originally discovered in the focus groups and reflected a willingness, among some businesses, to pay to keep their telephone number.

The majority (69%) of those businesses currently using RCF intended to always use the service to retain that number. While a greater proportion of large businesses were using RCF (20%), they were less likely than small business to always keep the service.



Impact of Elements on Willingness to Switch Providers

The following section outlines the relative influence of each of the major items that were included in the conjoint analysis. By holding all but one element constant, the influence of that element can be determined.

For consistency, a probable scenario was selected as the baseline for these comparisons. This scenario is: a long distance company offering local, toll and long distance services at a 15% discount (on local and toll), requiring a number change and an announcement for 1 year.

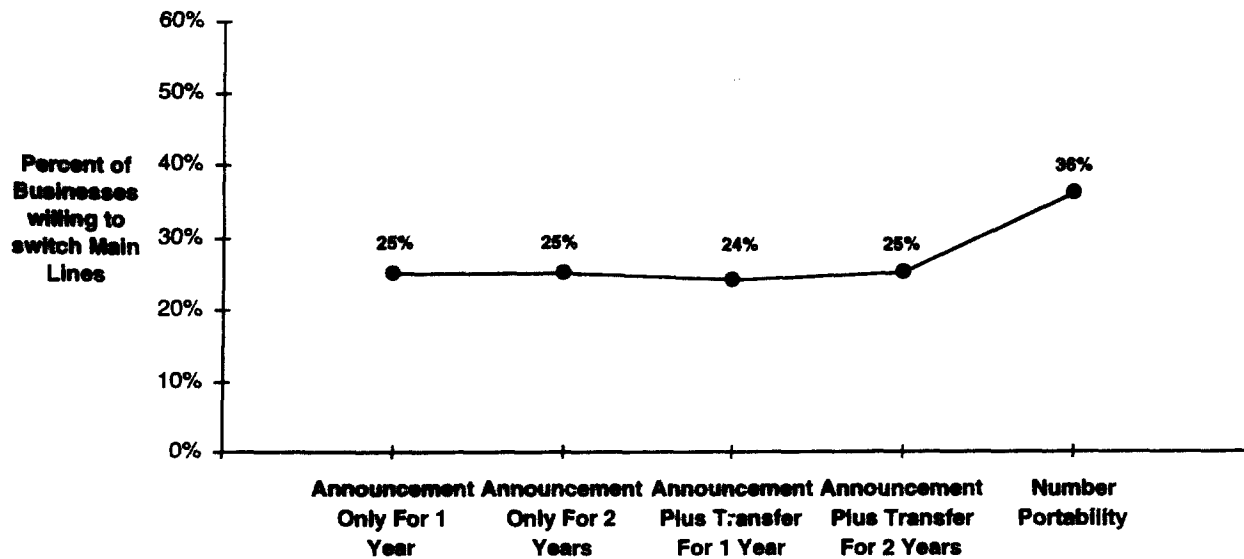
The results show both the percent of businesses that are willing to switch under any given scenario as well as the percent of all lines that would be switched under that scenario. When broken out by type of line (main, "other", DID), these percentages are based to businesses who have that type of line or to the universe of that type of line. For example, the percent of businesses that would switch "other lines" is based to the businesses who have "other lines." Similarly, the percent of all "other lines" switched is based to the universe of all "other lines."

Finally, the results are also broken out by business line size (i.e., the total number of lines a business has.)



Impact of Technological Solutions

Incumbent Long Distance Company Offers Service for 15% Discount *



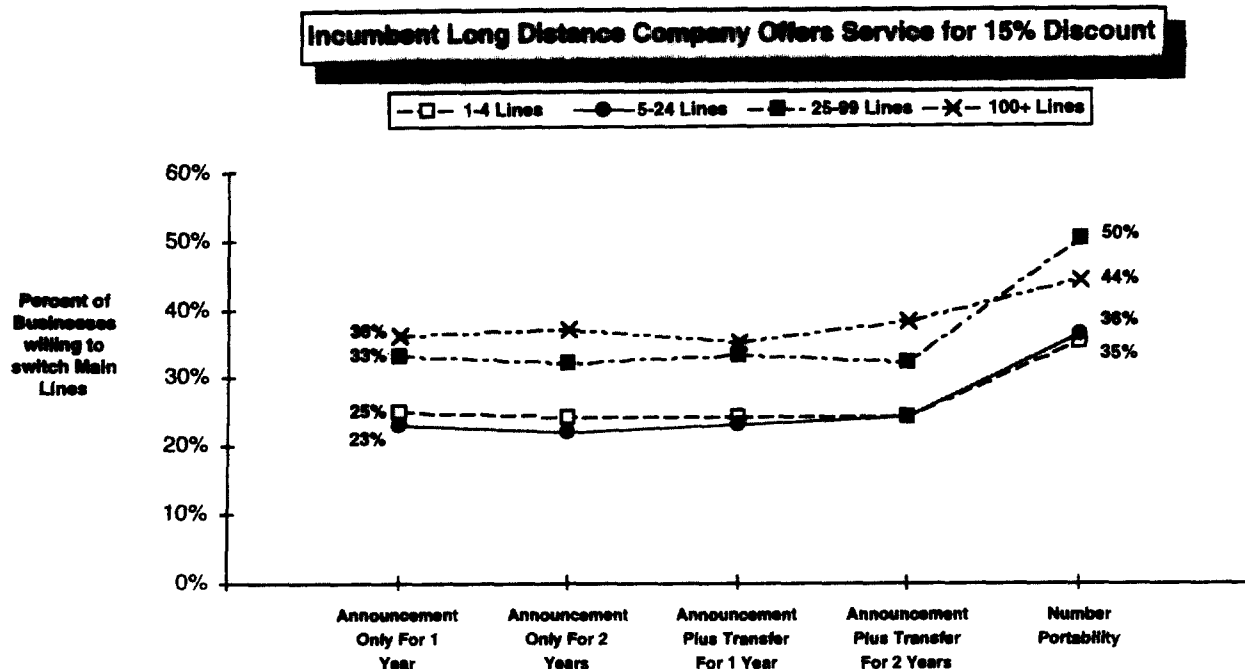
(Percent of Businesses Scale: 4=75%, 3=50%, 2=25%, 1=0%)

Regardless of the technological solution offered (e.g., announcement for one year versus announcement and transfer for two years), when an incumbent long distance telephone company bundles long distance, local and toll services at a 15% discount but requires a number change, approximately one-quarter of the businesses would switch their main lines. However, when offered number portability under the same scenario, more than one-third (36%) of the businesses would switch their main lines. This finding suggests that the issue to businesses is the ability to keep their number and, relative to that, the specific type of number change announcement offered is inconsequential.

* Results for additional discount levels included in Appendix



Impact of Technological Solutions



(Percent of Businesses Scale: 4=75%, 3=50%, 2=25%, 1=0%)

When analyzing the impact of technological solutions by line size, similar conclusions can be made. Within each segment, the percent of businesses that would switch their main lines remains relatively the same, regardless of the technological solution offered to mitigate the impact of a number change.

However, once number portability is offered, there are increases for each business category in the amount of businesses willing to switch main lines. When comparing business categories, number portability appears to have the greatest impact on businesses with 25-99 lines, with half (50%) willing to switch if they can keep their number (an increase of +17 over an announcement for 1 year). On the other hand, the largest businesses (100+ lines) are the least impacted by number portability (36% to 44%). Additionally, as will be seen throughout this report, larger businesses tend to be more likely to switch in general.



Impact of Technological Solutions

Incumbent Long Distance Company offers Service for 15% Discount *

	<u>Announcement Only For 1 Year</u>	<u>Announcement Only For 2 Years</u>	<u>Announcement With Transfer For 1 Year</u>	<u>Announcement With Transfer For 2 Years</u>	<u>Number Portability</u>
Percent of Businesses willing to switch: (Based to universe of businesses with specific line type)					
Main Lines.....	25%	25%	24%	25%	36%
Other Lines.....	27%	27%	27%	28%	37%
DID Numbers.....	36%	36%	35%	36%	44%
Percent of all lines that would be switched: (Based to universe of lines)					
Main Lines.....	14%	14%	14%	14%	30%
Other Lines.....	21%	23%	19%	21%	29%
DID Numbers.....	9%	9%	9%	9%	25%

(Percent of Businesses Scale: 4=75%, 3=50%, 2=25%, 1=0%)

If an incumbent long distance company were to offer long distance, local and toll services at a 15% discount, 14% of all main lines would be switched if a business had to change its number. However, with number portability, 30% of all main lines would be switched.

As expected, when a number change occurs, a greater percent of "other lines" will be switched compared to main lines (e.g. 21% versus 14% for announcement for 1 year). However, with number portability, this difference disappears (29% versus 30%). Additionally, "other" lines are more typically used for outbound traffic while main lines are reserved for inbound calls. Therefore, while about the same percent of "other" lines (29%) and main lines (30%) would be switched if number portability was available, the actual amount of usage revenue Pacific Bell would lose may be substantially different.

Under this same scenario, it appears that there is a higher willingness (36%) to switch DID numbers even if the phone numbers change. However only 9% of all DID numbers would be switched. If number portability was available, 44% of the business respondents would switch their DID numbers, affecting one-quarter (25%) of all DID numbers.

* Results for additional discount levels included in Appendix



Impact of Technological Solutions

Incumbent Long Distance Company offers Service for 15% Discount *

	Number of Lines				Number of Lines			
	1-4	5-24	25-99	100+	1-4	5-24	25-99	100+
Percent of Businesses willing to switch: (Based to universe of businesses with specific line type)								
Main Lines.....	25%	23%	33%	36%	35%	36%	50%	44%
Other Lines.....	26%	27%	42%	41%	35%	38%	55%	48%
Percent of all lines that would be switched: (Based to universe of line type)								
Main Lines.....	16%	13%	26%	6%	27%	23%	53%	20%
Other Lines.....	13%	20%	20%	20%	18%	27%	32%	27%

(Percent of Businesses Scale: 4=75%, 3=50%, 2=25%, 1=0%)

(Note: Data for DID Numbers are not shown as the sample sizes within segments are too small for analysis).

If an incumbent long distance company offered local, toll and long distance services at a 15% discount, with an announcement for 1 year, approximately one-third of businesses with 25 or more lines (33%-36%) would be willing to switch their main lines compared to only a quarter (23%-25%) of smaller businesses (under 25 lines). Businesses with 25 or more lines would also be more willing than smaller businesses to switch their "other" lines (42% versus 26%).

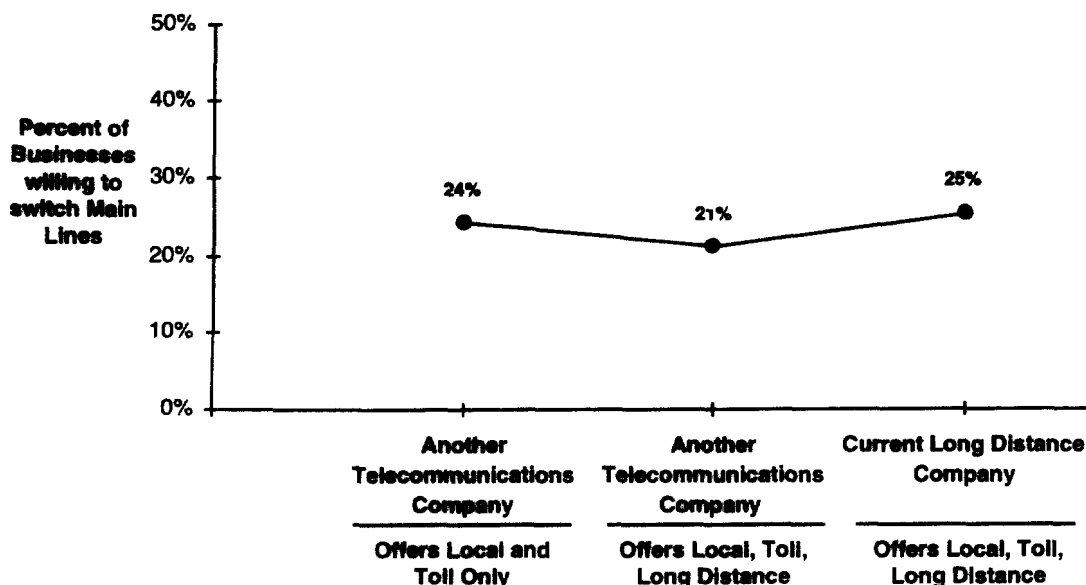
While the amount of large businesses (100+ lines) willing to switch their main line without number portability is relatively high (36%), the actual change by adding number portability is +8, slightly less than the increase of +11 for all businesses. It would seem that number portability in itself has less incremental influence on a larger business' willingness to switch.

* Results for additional discount levels included in Appendix



Impact of "Brand" and Service Bundling

Carrier offers 15% Discount and Announcement Only for 1 Year *



(Percent of Businesses Scale: 4=75%, 3=50%, 2=25%, 1=0%)

The brand of the local access provider and service bundling have relatively low impact on a business' willingness to switch relative to other elements (such as price or impact on number), suggesting that most potential alternative providers will have an equal baseline to start from. For example, in the scenario shown above, there is only a variance of 4% between the three brand/service bundling alternatives.

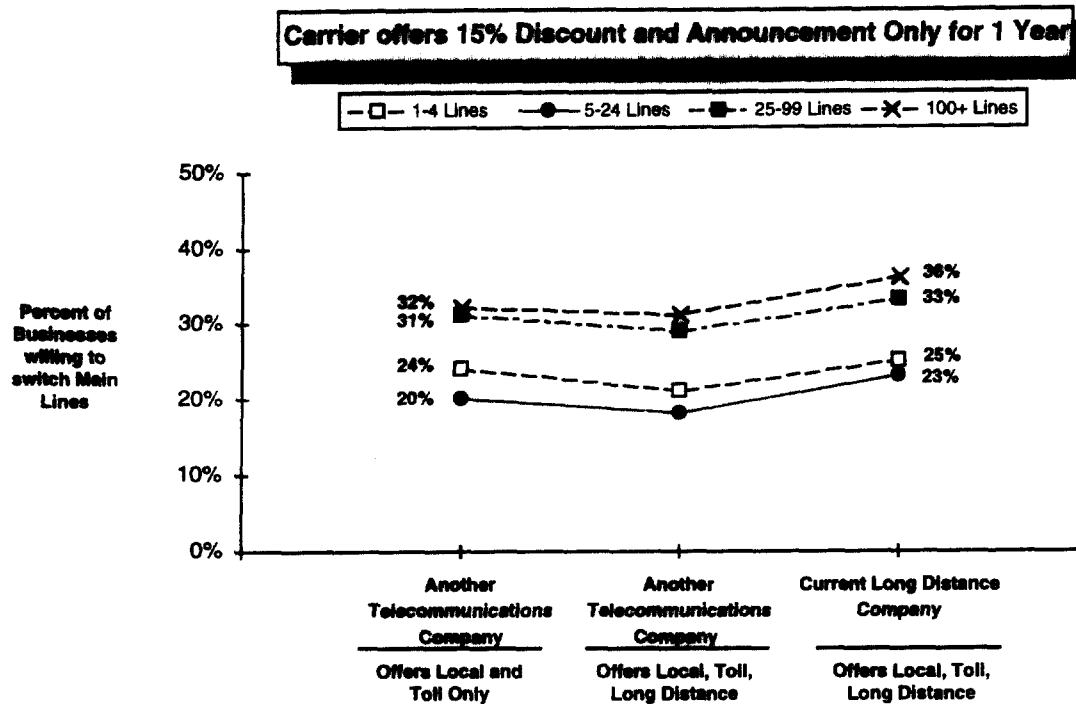
If, under this scenario, another telecommunications company was to offer local and toll services only, one-quarter (24%) of businesses would switch their main lines. However, if another telecommunications company was to bundle local, toll and long distance services, the percent of businesses willing to switch is slightly less (21%). This data supports a finding from the qualitative phase that some businesses do not want all their telecommunications services with a lesser known brand, as it may present a risk (i.e., put all their eggs in one basket).

However, with an incumbent long distance company, the risk of bundling services appears to be mitigated (25% of businesses are willing to switch under this scenario).

* Results for additional discount levels included in Appendix



Impact of "Brand" and Service Bundling



(Percent of Businesses Scale: 4=75%, 3=50%, 2=25%, 1=0%)

When analyzing the relative impact of brand and service bundling on businesses of varying size, the effects of these elements appear to be quite similar. In each category, businesses appear to be slightly more reticent, when considering an unfamiliar telecommunications provider, to bundle all telecommunications services versus just local and toll services.

However, if the incumbent long distance company was to offer local, toll and long distance services, businesses in each category show slightly more willingness to switch.



Impact of "Brand" and Service Bundling

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	Another Telecommunications Company Offers <u>Local and Toll Only</u>	Another Telecommunications Company Offers <u>Local, Toll, LD</u>	Current Long Distance Company Offers <u>Local, Toll, LD</u>
Percent of Businesses willing to switch: (Based to universe of businesses)			
Main Lines.....	24%	21%	25%
Other Lines.....	26%	24%	27%
DID Numbers.....	35%	33%	36%
Percent of all lines that would be switched: (Based to universe of lines)			
Main Lines.....	13%	11%	14%
Other Lines.....	20%	16%	21%
DID Numbers.....	8%	7%	9%

(Percent of Businesses Scale: 4=75%, 3=50%, 2=25%, 1=0%)

The brand of service provider and the services bundled have relatively low impact on a business' willingness to switch, regardless of line type.

Again, if an unknown telecommunications company offers all telecommunications services, businesses are generally less inclined to switch lines. In fact, only 11% of main lines and 16% of "other" lines would be switched to the unknown telecommunications company.

* Results for additional discount levels included in Appendix



Impact of "Brand" and Service Bundling

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